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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BEC1054 –FUNDAMENTALS OF ECONOMICS

(All sections / Groups)

11 MARCH 2019
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

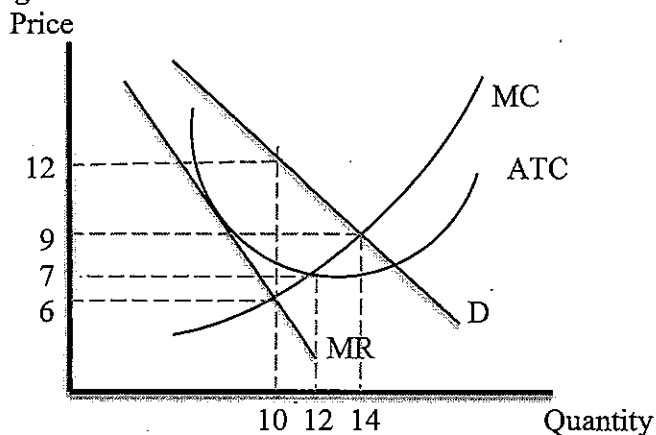
1. This question paper consists of EIGHT (8) pages with:
Section A: Forty (40) multiple-choice questions
Section B: Three (3) structured questions
2. Answer all questions.
3. Please answer Section A in the multiple-choice answer sheet and answer Section B in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS

Answer all questions below in the multiple-choice answer sheet (40 marks)

1. Which of the following is **NOT** necessarily a characteristic of perfect competition?
 - A. Low prices.
 - B. A homogeneous product.
 - C. A large number of buyers and sellers.
 - D. Easy entry and exit in the long run.
2. In perfect competition, if one firm raises its price,
 - A. others will follow.
 - B. that firm will increase its revenue.
 - C. that firm will lose revenues because other firms will not follow.
 - D. the market demand curve will shift.
3. A perfectly competitive firm's profit per unit of output equals
 - A. price minus average variable cost.
 - B. price minus marginal cost.
 - C. total revenue minus total cost.
 - D. price minus average total cost.
4. Which of the following is **TRUE** of monopoly?
 - A. There are no barriers to entry.
 - B. The firm is a price taker.
 - C. There are no close substitutes for the product being produced.
 - D. The firm faces a horizontal demand curve.
5. Monopolistic competitive firm's curve is more elastic than the monopoly demand curve because
 - A. each firm's output is large in relation to total market supply in monopolistic competitive market
 - B. there is freedom of entry and exit in the monopolistic competitive market
 - C. monopolistic competitive firms are price makers
 - D. monopolistic competitive firm's products are differentiated
6. For a non-discriminating monopolist, marginal revenue is
 - A. equal to price.
 - B. greater than price.
 - C. less than price.
 - D. equal to average revenue.

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Figure 1

7. Refer to **Figure 1**. The monopolistic competitor's profit-maximising level of output is
 - A. 6.
 - B. 10.
 - C. 12.
 - D. 14.
8. Refer to **Figure 1**. The price that the monopolistic competitor will charge at the profit-maximising level of output is
 - A. 6.
 - B. 7.
 - C. 9.
 - D. 12.
9. Refer to **Figure 1**. The monopolistic competitor is in
 - A. long-run equilibrium because price equals average total cost.
 - B. long-run equilibrium because marginal cost equals marginal revenue.
 - C. long-run equilibrium because price exceeds marginal cost.
 - D. short-run equilibrium because it is earning a positive economic profit.
10. The Kinked Demand Curve model of oligopoly is in category of
 - A. general model.
 - B. non-competing model.
 - C. competing leadership model.
 - D. competing non-leadership model.
11. Collusion occurs when
 - A. a firm chooses a level of output to maximise its own profit.
 - B. firms get together to maximise joint profits.
 - C. firms refuse to follow their price leaders.
 - D. two firms' price and output decisions come into conflict.

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12. In the Stackelberg model
- A. the dominant firm (leader) sets the quantity or output first, followed by the follower firms.
 - B. the dominant firm (leader) sets a price level, then the smaller firms (followers) follow its pricing policy.
 - C. the firms simultaneously try to decide what quantity to produce.
 - D. the firms simultaneously try to decide what price to produce but assumed that firms have the same cost structure.
13. Gross domestic product measures
- A. income and expenditures.
 - B. income but not expenditures.
 - C. expenditures but not income.
 - D. neither income nor expenditures.
14. Consumption consists of spending by households on goods and services, with the exception of
- A. purchases of durable goods.
 - B. purchases of non-durable goods.
 - C. purchases of new houses.
 - D. spending on education.
15. If net exports is a negative number for a particular year, then
- A. the value of firms' inventories declined over the course of the year.
 - B. consumption exceeded the sum of investment and government purchases during the year.
 - C. the value of goods sold to foreigners exceeded the value of foreign goods purchased during the year.
 - D. the value of foreign goods purchased exceeded the value of goods sold to foreigners during the year.
16. If the prices of all goods and services produced in the economy rose while the quantity of all goods and services stayed the same, which would rise?
- A. Both real GDP and nominal GDP.
 - B. Real GDP but not nominal GDP.
 - C. Nominal GDP but not real GDP.
 - D. Neither nominal GDP nor real GDP.
17. Amy babysits for her sister for no pay. When she babysits for someone else she charges RM400 per month. When is Amy's babysitting included in GDP?
- A. When she babysits for her sister and when she babysits for someone else.
 - B. When she babysits for her sister, but not when she babysits for someone else.
 - C. When she babysits for someone else, but not when she babysits for her sister.
 - D. Neither when she babysits for her sister nor for someone else.

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18. Other things the same, an increase in the price level makes the ringgit (RM) people hold worth
- A. more, so they can buy more.
 - B. more, so they can buy less.
 - C. less, so they can buy more.
 - D. less, so they can buy less.
19. Other things the same, when the price level rises, interest rates
- A. rise, so firms increase investment.
 - B. rise, so firms decrease investment.
 - C. fall, so firms increase investment.
 - D. fall, so firms decrease investment.
20. When taxes decrease, consumption
- A. decreases as shown by a movement to the left along a given aggregate-demand curve.
 - B. decreases as shown by a shift of the aggregate demand curve to the left.
 - C. increases as shown by a movement to the right along a given aggregate-demand curve.
 - D. increases as shown by a shift of the aggregate demand curve to the right.
21. Which of the following is a **TRUE** statement?
- A. An economy can never produce more than its full employment output in the long run.
 - B. An economy can never produce more than its full employment output in the short run.
 - C. The full employment output of the economy is identical to capacity output in a short run equilibrium.
 - D. An economy's full employment output depends on the standard length of time of labour contracts.
22. The long run aggregate supply curve is
- A. equal to the short run aggregate supply curve.
 - B. upward sloping.
 - C. vertical at full employment output.
 - D. horizontal at the current price level.
23. Which of the following is an example of barter trade system?
- A. A parent gives a teenager a RM10 in exchange for her laundry services.
 - B. A homeowner gives an exterminator a check for RM100 in exchange for extermination services.
 - C. A barber gives a baker a haircut in exchange for the baker's cupcakes.
 - D. All of the above are example of barter trade system.

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24. You pay for tuna sandwich from the deli with currency. Which function of money does this best illustrate?
- A. Unit of account.
 - B. Medium of exchange.
 - C. Store of value.
 - D. Liquidity.
25. If a bank has a reserve ratio of 10 percent, then
- A. Government regulation requires the bank to use at least 10 percent of its deposits to make loans.
 - B. The bank's ratio of loans to deposits is 10 percent.
 - C. The bank keeps 10 percent of its assets as reserves and loans out the rest.
 - D. The bank keeps 10 percent of its deposits as reserves and loans out the rest.
26. If the reserve ratio is 20 percent, the money multiplier is
- A. 2.
 - B. 4.
 - C. 5.
 - D. 8.
27. If the stock market booms, then
- A. aggregate demand increases, which the central bank could offset by increasing the money supply.
 - B. aggregate supply increases, which the central bank could offset by increasing the money supply.
 - C. aggregate demand increases, which the central bank could offset by decreasing the money supply.
 - D. aggregate supply increases, which the central bank could offset by decreasing the money supply.
28. The multiplier for changes in government spending is calculated as
- A. $1/\text{MPC}$.
 - B. $1/(1-\text{MPC})$.
 - C. $\text{MPC}/(1-\text{MPC})$.
 - D. $(1-\text{MPC})/\text{MPC}$.
29. Which of the following correctly explains the crowding-out effect?
- A. An increase in government spending decreases the interest rate and so increases investment spending.
 - B. An increase in government spending increases the interest rate and so decreases investment spending.
 - C. A decrease in government spending increases the interest rate and so increases investment spending.
 - D. A decrease in government spending decreases the interest rate and so decreases investment spending.

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30. A decrease in government spending initially shifts
- A. aggregate demand to the right.
 - B. aggregate demand to the left.
 - C. aggregate supply to the right.
 - D. neither aggregate demand nor aggregate supply.
31. Assume the multiplier is 5 and that the crowding-out effect is RM20 billion. An increase in government purchases of RM10 billion will shift the aggregate-demand curve to the
- A. right by RM150 billion
 - B. right by RM70 billion.
 - C. right by RM50 billion.
 - D. right by RM30 billion
32. If taxes
- A. increase, then consumption increases and aggregate demand shifts rightward.
 - B. increase, then consumption decreases and aggregate demand shifts leftward.
 - C. decrease, then consumption decreases and aggregate demand shifts rightward.
 - D. decrease, then consumption decreases and aggregate demand shifts leftward.
33. Which of the following raises the interest rate?
- A. An increase in government spending and an increase in the money supply.
 - B. An increase in government spending and a decrease in the money supply.
 - C. A decrease in government spending and an increase in the money supply.
 - D. A decrease in government spending and a decrease in the money supply.
34. If the central bank increases the money supply the
- A. planned investment increases which tend to increase price level.
 - B. planned investment increases which tend to decrease price level.
 - C. planned investment decreases which tend to increase price level.
 - D. planned investment decreases which tend to decrease price level.
35. To decrease the interest rate the central bank could
- A. buy bonds. The fall in the interest rate would increase investment spending.
 - B. buy bonds. The fall in the interest rate would decrease investment spending.
 - C. sell bonds. The fall in the interest rate would increase investment spending.
 - D. sell bonds. The fall in the interest rate would decrease investment spending.
36. A basis for the slope of the short-run Phillips curve is that when unemployment is high there are
- A. downward pressures on prices and wages.
 - B. downward pressures on prices and upward pressures on wages.
 - C. upward pressures on prices and downward pressures on wages.
 - D. upward pressures on prices and wages.

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37. According to the Phillips curve, policy makers could reduce both inflation and unemployment by
- A. increasing the money supply.
 - B. increasing government spending.
 - C. increasing taxes.
 - D. None of the above is correct.
38. If policymakers decrease aggregate demand, then in the short run the
- A. price level falls and unemployment rises.
 - B. price level and unemployment fall.
 - C. price level and unemployment rise.
 - D. price level rises and unemployment falls.
39. In the long run, policy that changes aggregate demand changes
- A. both unemployment and the price level.
 - B. neither unemployment nor the price level.
 - C. only unemployment.
 - D. only the price level.
40. If the minimum wage increased, then at any given rate of inflation
- A. Both output and employment would be higher.
 - B. Neither output nor employment would be higher.
 - C. Output would be higher and unemployment would be lower.
 - D. Output would be lower and unemployment would be higher.

SECTION B: STRUCTURED QUESTIONS (60 marks)

Answer all questions below in the answer booklet

Question 1

- (a) Distinguish the **THREE (3)** tools that central bank uses to control money supply and determine how can each of the tool helps to increase the quantity of money supply in the economy.
- (12 marks)
- (b) Illustrate a simple T-account for Bank Y which has RM5,000 of deposits and a required reserve ratio of 10 percent. Make sure your balance sheet balances.
- (4 marks)
- (c) Illustrate the money market equilibrium diagram by showing the excess supply of money and demand of money.

(4 marks)

(Total: 20 marks)

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Question 2

- (a) (i) Distinguish between an expansionary and contractionary fiscal policy.
(6 marks)
- (ii) Using an appropriate diagram, examine how the government use fiscal policy during recession in order to restore economy to the natural real GDP.
(6 marks)
- (b) Determine how an expansionary monetary policy affects interest rates, amount of investment, price level and aggregate demand.
(8 marks)
- (Total: 20 marks)**

Question 3

- (a) Regardless of the type of profit earned in short run, a perfectly competitive firm and a monopolistic firm may only earn normal profit in long run.
- (i) Explain the main factor that contributes to this normal profit.
(7 marks)
- (ii) Use appropriate diagrams to show the normal profit in long-run for perfectly competitive firm and monopolistic firm.
(4 marks)
- (b) Show by giving an example for each, the **THREE (3)** types of price discrimination practiced by a monopoly firm.
(9 marks)
- (Total: 20 marks)**

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